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Hearing on International Tax Reform

Good morning, Chairman Tiberi, Ranking Member Neal, and members of the Committee. Thank you for this opportunity to share my views on a topic of critical importance to the long-term competitiveness of the U.S. economy. My testimony will comment on corporate tax reform as it relates to international reform, on the various approaches to territorial taxation, and about Chairman Camp's draft proposal to exempt the profits generated from U.S.-owned foreign business operations from U.S. tax.

I. Tax Reform Should Promote Competitiveness of the Entire Economy

U.S. multinational corporations play an invaluable role in the American economy. They are research and export intensive, and they provide tens of millions of high-paying jobs. Their worldwide distribution networks increase demand for domestic research, high-tech manufacturing, and management services. It is not in the interest of the United States to have multinationals' headquarters go abroad or for them to be at a competitive disadvantage to foreign-headquartered multinationals. We should always remain vigilant to problem, but as of now there is little evidence U.S. multinationals are going abroad² and there is little evidence that U.S. multinationals suffer significant tax disadvantages vis-à-vis foreign headquartered multinationals.³

Moreover, multinational corporations are only a part of the American economy. Multinational competitiveness is not an end unto itself. The competitiveness of the entire economy is what is critical to standard-of-living of the American people. If job creation through tax reform is our goal, we cannot neglect small business. We cannot neglect large and mid-sized business that do not have foreign operation but nevertheless compete internationally (with their exports on foreign markets and with imports into the United States). We cannot close the door to highly mobile job-creating foreign companies that clearly have opportunity to locate their factories elsewhere.

¹ The views here are my own and not those of Tax Analysts. Founded in 1970 as a nonprofit organization, Tax Analysts is a leading provider of tax news and analysis for the global community. By working for the transparency of tax rules, fostering increased dialogue between taxing authorities and taxpayers, and providing forums for education and debate, Tax Analysts encourages the creation of tax systems that are fairer, simpler, and more economically efficient.

² Eric J. Allen and Susan C. Morse, "Firm Incorporation Outside the U.S.: No Exodus Yet," October 28, 2011, available on-line at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1950760.

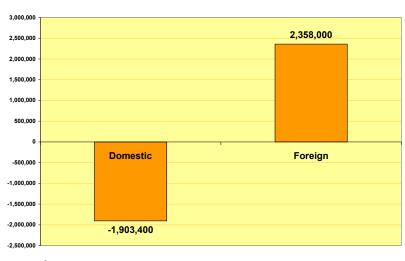
³ See section II below for more detail.

Too often in Washington D.C. the term "competitiveness" is equated to the "competitiveness of multinationals." This is a serious mistake. A far more important objective is promoting the <u>overall</u> competitiveness of the U.S. economy. Tax policies that only promote the interests of multinationals are a double whammy on the rest of the economy—for two reasons.

First, this tax-induced tilt of the playing field shifts economic resources to multinationals and away from the rest of the economy. This not only hurts small business but it hurts the overall economy because government rules get in the way of efficient free-market outcomes. Whatever the positive effects are to the United States of promoting the success its homegrown multinationals, it is outweighed by the economic costs of distorted investment decisions.

And second, now that we have extremely tight budgets that require tax reform to be revenue-neutral—or perhaps even revenue-raising--any tax cuts for foreign operations of U.S. business are likely to mean tax increases for domestic business.

The best way for tax policy to promote domestic economic growth is to reform the tax system so that all job-creating sectors of the economy are taxed evenly. Therefore, if the Congress has opportunity to reform corporate taxes it would be far better to reduce our high corporate tax rate (which would be a direct incentive for <u>domestic</u> job creation) rather than make our already generous foreign tax rules even more favorable (which would be a direct incentive for <u>foreign</u> job creation).



U.S. Multinational Job Creation, 1999-2008

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Proponents of reduced taxes on foreign operations of U.S. companies like to argue that direct stimulus to foreign job creation will indirectly benefit U.S. job creation. Proponents of reduced taxes on foreign operations of U.S. companies like to argue that direct incentives for foreign job creation will indirectly benefit U.S. job creation. I like to refer to this as trickle-sideways

⁴ In 1991 the Ways and Means Committee held nine day of hearings on international competitiveness. For further discussion of the different definitions of competitiveness, see the JCT background pamphlet for those hearings the JCT: Joint Committee on Taxation, *Factors Affecting the International Competitiveness of the United States*, JCS-6-91, May 30, 1991.

economics, a notion we should find no more compelling than trickle-down economics. In a purely domestic context, trickle-sideways proponents would argue, for example, that subsidies for businesses in Kentucky will increase job creation in Ohio. But this is an incomplete story that fails to address who is losing a job and who is getting a job. While it is true that the subsidies in Kentucky might result in some new jobs in Ohio, that fact would be cold comfort for the workers whose positions were moved Kentucky. Moreover, current Ohio residents (including those whose jobs were moved) would not necessarily be the ones to fill the newly created jobs. Finally, such a policy would be particularly hard for Ohio residents to stomach if they are the ones being asked are being asked to foot the bill for the subsidies in Kentucky.

A territorial tax system is not all that different from the hypothetical subsidy for jobs in Kentucky paid for by taxpayers in Ohio. A territorial system is the elimination of tax on foreign operations of U.S. corporations--a subsidy for overseas job creation. The data simply do not support the trickle-sideways theory. Even with the less generous subsidies offered under the present system (deferral as opposed to exemption) the jobs have gone offshore. As shown in the figure below, between 1999 and 2008, U.S. multinational corporations cut their domestic employment by 1.9 million. Over the same period U.S. multinationals increased their employment overseas by 2.4 million

II. Multinationals Pay Low Taxes

Current U.S. tax rules provide large tax benefits to foreign operations of U.S. companies that are not available for business operations inside the United States. The favorable treatment of foreign profits (and U.S. profits booked in foreign locations) is the result of a combination of factors, including: (1) the ability to easily shift profits out of the United States and into tax havens; (2) the exemption of unrepatriated foreign profits from U.S. tax until those profits are distributed to U.S parent company ("deferral"); and (3) the ability for most repatriated profits to escape U.S. tax through skillful use of foreign tax credit rules.

Over the past decade the effective tax rates of U.S. corporations have declined significantly. As shown in the table below in less than a dozen years the average effective rate of America's 20 most profitable corporations has dropped by 5.5 percentage points—from 35.8 percent during the 1997-99 period to 30.3 percent during the 2005-07 period. These declines have little to do with tax credits and deductions for domestic business operations. They are primarily the result of ever more favorable tax treatment of foreign profits. U.S. corporations do not need to employ complex tax shelters as they did in the 1990s in order to the lower their tax rates. All they need to do is move operations offshore and shift profits there.

According to the IRS, foreign subsidiaries of U.S. corporations paid an average rate of *foreign* tax of 16.4 percent in 2006. ⁷ In 2010 Cisco Systems, Apple Computer, Amgem, and Google all

⁵ Martin A. Sullivan, Corporate Tax Reform: Taxing Profits in the 21st Century, APress, 2011, Table 2.1.

⁶ Martin A. Sullivan, "Why Reported Effective Corporate Tax Rates Are Falling," *Tax Notes*, March 3, 2008.

⁷ Lee Mahony and Randy Miller, "Controlled Foreign Corporations, 2006," *Statistics of Income Bulletin*, winter, 2011, Table 1. This figure is for the approximately 7500 largest controlled foreign corporations with positive foreign earnings. Data from 2006 are the most recent available.

reported foreign effective tax rates of 5 percent or below. By shifting profits to holding companies in tax havens, foreign effective tax rates can be held far below the rates of tax of the foreign countries where business operations of multinationals actually are located. 9

The Declining Effective Tax Rates of America's Most Profitable Corporations				
Corporation	Book Profits	Reported Effective Tax Rate		
		1997-99	2005-07	
	(billions)	Average	Average	Change
Altria	\$9.8	40.3%	29.6%	-10.7%
AT&T	\$12.0	37.7%	27.7%	-10.0%
Bank of America	\$15.0	36.4%	31.7%	-4.7%
Berkshire Hathaway	\$13.2	33.4%	32.7%	-0.7%
Chevron	\$18.7	47.6%	44.1%	-3.5%
Cisco Systems	\$7.3	40.9%	26.0%	-14.9%
ConocoPhillips	\$11.9	47.3%	45.4%	-1.9%
Exxon Mobil	\$40.6	36.1%	42.7%	+6.6%
General Electric	\$22.2	29.6%	16.8%	-12.8%
Goldman Sachs	\$11.6	n.a.	33.5%	
Hewlett-Packard	\$7.3	27.7%	22.3%	-5.4%
IBM	\$10.4	32.3%	30.7%	-1.6%
Intel	\$7.0	34.3%	27.9%	-6.4%
J. P .Morgan Chase	\$15.4	36.2%	31.4%	-4.8%
Johnson & Johnson	\$10.6	27.9%	22.6%	-5.3%
Microsoft	\$14.1	35.6%	29.0%	-6.6%
Pfizer	\$8.1	26.6%	18.6%	-8.0%
Procter & Gamble	\$10.3	34.7%	30.1%	-4.6%
Wal-Mart Stores	\$12.7	35.7%	33.6%	-2.1%
Wells Fargo	\$8.1	39.4%	32.6%	-6.8%
Group Average*		35.8%	30.3%	-5.5%

^{*} Excluding Goldman Sachs. It was not a publicly traded company in the 1990s. **Source:** Company annual reports.

The observation is often made that the United States is one of the few major economies that has a worldwide system of international tax (where, in theory, all multinational profits are subject to U.S. tax) and has not adopted a territorial system (where, in theory, all foreign profit is exempt from tax). To those unschooled in the realities of international tax, this observation implies that U.S. multinationals are at significant competitive disadvantage with foreign multinationals. But this is not the case.

⁸ Martin A. Sullivan, "Foreign Tax Profile of Top 50 U.S. Companies," *Tax Notes*, July 25, 2011.

⁹ Widespread foreign-to-foreign profit shifting—made possible by the Clinton Treasury's adoption of check-the-box rules—has greatly reduced multinationals' overall foreign effective tax rates. This makes shifting profit out of the United States to almost any foreign location lucrative. This important point has been by highlighted Edward Kleinbard, former chief of staff of the Joint Committee on Taxation. See, Edward D. Kleinbard, "Stateless Income's Challenge to Tax Policy," *Tax Notes*, September 5, 2011.

First, as we have already noted, U.S. multinationals enjoy major benefits under our current worldwide system. The benefits of current law are so large that in 2005—when both the Joint Committee on Taxation and the President Bush's Advisory Board for Tax Reform released proposals for moving the United States to a territorial system—both of these plan were scored to *raise* revenue. ¹⁰ Based on these estimates we can conclude that current law is more generous to multinationals than would be an exemption system that correctly measures foreign source income.

Second, territorial systems employed in other countries are not "pure" territorial systems that provide exemption for all foreign profits from active business. Many countries do not allow exemption if profits are generated in low-tax jurisdictions at excessively high rates of return. They may also disallow domestic interest deductions if interest deductions are disproportionately large relative to foreign interest deductions.

Data confirm that the United States, despite its retaining a worldwide system, has international tax rules that are as generous as those nations with territorial systems, despite their adoption of territorial systems. One recent study compared the 100 top U.S. multinationals and the 100 top multinationals based in the European Union. Over the 2001-2010 the average rate for an EU multinational was 35 percent compared to an average rate of 31 percent for U.S. multinationals. For 2010, the average rate for EU multinational was 31 percent compared to 24 percent for U.S. multinationals. There have been numerous other studies making international comparisons of corporate effective tax rates. Any specific conclusions about the relative tax advantages of U.S. versus foreign multinationals depend on the precise details of how the economic analyses are constructed and data samples are collected. However, a fair reading of the existing research that in general U.S. multinationals do not suffer any significant competitive disadvantages relative to their foreign competitors.

III. Lost Revenue, Lost Jobs

The ease of shifting profits out of the United States (either directly into tax havens or first into other major economies and ten into tax havens) results in large revenue losses to the U.S. Treasury. It is hard to pin down a precise figure, but estimates between \$30 and \$60 billion annually seem reasonable. 12

By allowing inappropriate transfer pricing, the IRS—an agency of the U.S. government--is providing subsidies for investment and job creation outside of the United States. It is no different than, say, the Department of Commerce sending checks directly to companies for investing abroad instead of the United States. This is not only corporate welfare. It is corporate welfare detrimental to the interest of U.S. workers. It remains largely hidden from public view by the complexity of the rules and the lack of disclosure by multinationals.

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¹⁰ President's Advisory Panel on Federal Tax Reform, Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System, Report of the President's Advisory Panel on Federal Tax Reform, November 2005; and Joint Committee on Taxation, Options to Improve Tax Compliance and Reform Tax Expenditures, JCS-02-05, Jan. 27, 2005.

¹¹ See Jane G. Gravelle, "International Corporate Tax Rate Comparisons and Policy Implications," Congressional Research Service, March 31, 2011.

¹² Martin A. Sullivan, "Transfer Pricing Costs U.S. at Least \$28 Billion," *Tax Notes*, Mar. 22, 2010; and Kimberly A. Clausing, "The Revenue Effects of Multinational Firm Income Shifting," *Tax Notes*, Mar. 28, 2011.

In addition to the revenue problem there is the jobs problem. A combination of factors makes the incentive for foreign job creation far larger than the differential between U.S. and foreign tax rates might suggest. U.S. companies investing abroad usually pay foreign tax at rate far below the rates of the countries in which they invest. That's because it is easy for them to shift profits from moderate-tax countries where they do business to pure tax havens. That's bad enough. But this is not the end of the story. A toehold of real investment allows a truckload of profit to follow. Once a multinational establishes a foreign business it becomes a magnet for movable profits. Lax U.S. rules allow what should be domestic profit to be shifted out of the United States to foreign jurisdiction where it only subject to low foreign tax. This ability to shift profits out of the United States turbo-charges the U.S. tax incentive for foreign investment. In many cases, the marginal effective rate on foreign investment is driven below zero.

For obvious reasons throughout our history it is customary to limit business tax incentives (e.g., investment credits, research credits, jobs credits) to domestic business activities. But our foreign tax rules do just the opposite. In effect, U.S. foreign tax rules provide a foreign tax credit exclusively for foreign investment and foreign job creation.¹³

In a revenue neutral tax reform, if tax benefits are targeted to foreign operations of U.S. businesses, other American businesses are left out in the cold. These include small businesses, mid-size and large companies with mostly domestic operations, and foreign-owned businesses that want to locate factories in the United States

But let's say Congress does decide to promote the competitiveness of multinationals over other domestic businesses. Tax benefits for foreign operations are not the only means of promoting multinational competitiveness. U.S. multinationals have a domestic side and a foreign side. At every opportunity Congress should favor the domestic over the foreign side. Providing tax benefits *to domestic suppliers* also would improve the competitiveness of U.S. multinationals. Policies like reductions in the corporate tax rate and expansion of the research credit would increase multinational competitiveness by strengthening the multinationals' domestic supply chain and encouraging expansion of domestic operations.¹⁴

IV. Territorial System That Cuts Multinational Taxes

U.S. multinationals are not interested in territorial systems like those proposed in 2005 by the President's Advisory Panel and Joint Committee on Taxation. These proposals are an overall tax

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¹³ In his 2003 paper Treasury economist Harry Grubert points out the companies with the most opportunity for profit shifting are companies with lots of research intangibles. Grubert finds that not only are these companies engaged in profit shifting, but that the combination of low taxes and the ability to shift income creates a significant incentive to locate jobs and investment in low-tax countries. ("Intangible Income, Intercompany Transactions, Income Shifting, and the Choice of Location," *National Tax Journal*, Vol. LVI, No. 1, Part 2, p. 221, March 2003.)

¹⁴ Along these lines Michael Durst, former director of the IRS Advanced Pricing Agreement program, has proposed a tax reform that would include a reduction in the corporate tax rate to 15 percent, elimination of opportunities to shift income to tax havens, and large reductions in tax expenditures. His goal is to increase U.S. job creation. This would occur both through the effects of the lower rate and through the elimination current tax haven techniques that encourage job creation outside instead of within the United States. Michael C. Durst, "An Employment, Equity, and Competitiveness Tax Act," *Tax Notes*, September 26, 2011

increase. Nor do U.S. multinationals want a territorial system that is revenue-neutral relative to current law. They want a territorial system that reduces their taxes.

But cutting taxes on offshore business with a generous territorial system would be a setback to the overall competitiveness of the U.S. economy. Our system of taxing international business would move from bad to worse. It would tilt the playing field further in favor of offshore job creation and against domestic job creation. And if tax increases on domestic activities are used to pay for a revenue-losing territorial system, the damage to the overall competitiveness of the economy would be exacerbated.

There is one benefit of moving from the current system of deferral to a territorial system. It would eliminate the problem of "trapped" foreign profits. This benefit, however, must be kept in perspective. There is no doubt that "lock-out" is a needless tax barrier to the free movement of retained earnings inside a corporation. But the benefit of unlocking those profits for job creation is not large as advertised, as our experience with the "tax holiday" in 2004 demonstrates. ¹⁵ Nor is the burden of keeping those profits offshore as large as many corporations claim. Many multinationals are going to use those funds for foreign investment and don't need to repatriate. In most cases the inability to tap these funds does not stymie investment and job creation because multinationals have other funding options (including tapping into domestic retained earnings and borrowing at low rates).

The advantage of unlocking foreign profits does not offset the disadvantages of lost revenue and domestic job losses. Unlocking retained foreign profits is not a good justification for moving to a territorial system. Furthermore, there are other ways of unlocking these profits, including moving to a worldwide system.

V. The Chairman's Draft

On October 26 Chairman Camp unveiled a draft international tax reform bill that would put the United States on a path toward a territorial tax system. The significant rules in the draft language that would prevent profit shifting and the emphasis in the accompanying explanation on preserving revenue-neutrality suggest a territorial plan with teeth.

Territorial systems that do not bleed revenue losses cannot simply exempt foreign profits from U.S. tax. In order to protect the domestic tax base—that is, to prevent wholesale shifting of profits that should be taxed in the United States to tax havens—backstops and anti-abuse rules are a must. There are five features of the Chairman's draft that serve in this role. If they are ultimately adopted, they could offset the cost of eliminating U.S. tax on foreign profits and make it possible for a territorial system to be revenue-neutral. These will be the flashpoints of future debate on this plan.

Deduction Limited to 95 Percent. The mechanics of the draft gets us to a territorial system not by exempting foreign income from U.S. tax. Instead it allows provides a deduction equal to 95 percent of foreign profits. (So, foreign profits as booked are not actually free of U.S. tax but, with the assumed 25 percent tax rate, they are subject to an effective rate of U.S. tax of 1.25 percent.) The use of a 95 percent deduction instead of a deduction equal to all foreign income is a quick and

¹⁵ Lee A. Sheppard and Martin A. Sullivan, "Repatriation Aid for the Financial Crisis?" *Tax Notes*, January 5, 2009.

easy substitute for the full-blown accounting rules that would be needed to properly measure foreign profit.

One of the most basic tenets of accounting is that proper measurement of income requires matching revenues with expenses. Many deductions for activities on U.S. soil should properly be allocated to foreign income. For example, if one quarter of U.S. headquarters' efforts is devoted to foreign operations, one quarter of headquarters expense should be allocated to foreign profit. Otherwise, foreign profits—now exempt—are overstated

The 5 percent haircut on the deduction for foreign income is a crude approximation. It is only correct if expenses properly allocated to foreign income are equal to 5 percent of foreign income. Companies with deducting a lot expenses in the U.S. that benefit foreign income benefit from this rough justice approach.

Both Japan and the United Kingdom adopted territorial systems in 2009. Japan limited its exemption to 95 percent of foreign income just as the Camp draft suggests. The new U.K. system does not have any limitation.

Branches Treated as Corporations. Foreign affiliates of U.S. corporations can be organized as branches or as corporations. Organizing as a foreign corporation has the huge advantage of allowing U.S. tax to be deferred until profits are repatriated. If, however, the foreign affiliate has losses, branches have advantages over corporations because losses can be deducted immediately. Under the proposal losses of foreign branches would no longer have the advantages they have under current law.

Tax on Previously Accumulated Earnings. Multinationals are lobbying for a temporary 5.25 percent tax on whatever portion of those \$1.3 trillion of accumulated foreign earnings they chose to repatriate. Under the proposal, there would be a 5.25 percent tax on all those earnings whether or not they are repatriated. (Unrepatriated earnings that subsequently repatriated would be treated like post-effective date foreign earnings.) Multinationals would have the option of paying this tax (plus interest) over 8 years. There is nothing magical about the 5.25 percent rate. It can be raised or reduced depending on how much revenue needs to be raised. Changing the rate will not change the amount of repatriations because the amount of tax does not depend on the amount repatriated.

Limits on Domestic Interest Deductions. Under the proposal, domestic interest deductions would be limited to the extent the domestic debt-equity ratio exceeded the foreign debt-equity ration and to the extent interest deductions exceed some yet-to-be-determined percentage of gross income. Depending on the details, this provision could raise a little or a lot of revenue. As Congress desperately searches for new revenue, limitations on interest deductions deserve serious attention from Congress, not just as a component of international reform, but also as a component of corporate tax reform.

Limits on Benefits for Low-Tax Foreign Income. U.S. transfer pricing rules are sieve. Profits—especially profits from U.S.-developed intangibles—can readily be shifting to low-tax countries and tax havens. Many believe that moving to a territorial system will put even more pressure on U.S. transfer pricing rules. Under current law, one way to reduce aggressive profit shifting is to disallow deferral in situations where transfer pricing abuse is likely to occur. In other countries with territorial systems, transfer pricing abuse is reduced by disallowing territorial benefits in those same situations. The Chairman's draft plan would take the anti-deferral rules in the current

U.S. system and employ them as anti-exemption rules in his system. Moreover, he would add expand the scope of these rules. The general approach of the new rules is that when income is booked in a low-tax country and that income is not related to business operations in that low-tax country, it will be subject to U.S. tax.

The idea for the first of these three alternatives comes from the Obama Administration. In his second and third budgets President Obama has proposed current taxation of foreign profits when income three conditions are met: (1) it is income from an intangible; (2) it is income that exceeds a normal rate of return earns; and (3) it is subject to a low rate of tax.

The Chairman's second alternative is tougher than the first. It would subject all income from low tax countries to current U.S. tax—whether or not it is from an intangible and whether or not it is income that exceeds a normal return. This alternative—particularly if combined with a reduction in the corporate tax rate—would be extremely attractive because it greatly reduce the differential between domestic and foreign investment and would eliminate the lock-out effect.

The third alternative is far less burdensome on U.S. multinationals. It would be deny deferral to all low-tax intangible income earned by a foreign subsidiary but the U.S. parent would only be subject to an effective rate of tax equal to 60 percent of the top statutory rate on that "foreign base company intangible income." If we go along with the Chairman's assumption that the corporate rate has already been reduced to 25 percent, the effective rate on income from intangible assets would be 15 percent.

VI. Paying for a Lower Corporate Rate

It is hard to be optimistic about the prospects for corporate tax reform. It was difficult in 1986 and the conditions for corporate tax reform were much more favorable in 1986 then they are now. In the second half of the 1980s our deficit was under control and the economy was growing. We had a popular second term president with a good working relationship with Congress.

In 1986 Congress reduced the corporate tax rate 12 percentage points—from 46 to 34 percent. What almost everybody forgets it that the 1986 rate reduction was paid for mostly by repeal of the investment tax credit. That credit reduced corporate tax revenues by approximately 25 percent—about \$100 billion annually in today's terms. There is no one big corporate tax expenditure out there right now whose repeal can pay for major rate reduction.

On the contrary, repeal of the current top three corporate tax expenditures—accelerated depreciation, the deduction for domestic production, and the research credit—could only pay for a rate reduction to about 30 percent. And total repeal is highly unlikely given all three have strong support. Furthermore, the beneficiaries of the big three corporate tax expenditures are mainly in the manufacturing sector. Therefore, the main thrust of any revenue-neutral corporate reform effort would be a tax increase on the manufacturing sector offset by a tax cut for other sectors like retail and finance. Revenue-neutral corporate reform will create large winners and losers that will undo the corporate coalition currently supporting reform.

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¹⁶ Martin A. Sullivan, "Winners and Losers in Corporate Tax Reform," *Tax Notes*, Feb. 14, 2011.

Not surprisingly, given the lack of attractive options, American business wants Congress to pursue corporate tax reform that is not revenue neutral. Speaking for the Business Roundtable, Robert McDonald, Procter & Gamble CEO, spoke of his concern with revenue-neutral corporate reform when he testified before the full committee revenue on January 20th of this year. ¹⁷

But whose ox will be gored to pay for corporate rate reduction? If we want 25 percent corporate rate or even a 30 percent corporate rate, it is almost certain that Congress will have to extract revenue from outside the corporate sector. Here are some of possible revenue sources to pay for the lower corporate rate:

- (1) a carbon tax (as in the United Kingdom¹⁸ and Australia¹⁹);
- (2) a value added tax (VAT rate was recently raised in the United Kingdom²⁰ and there is a proposed rate increase in Japan²¹)
- (3) limiting deduction on corporate debt (as in Germany²² and as proposed under the Weyden-Coates plan²³)
- (4) increasing taxes on individuals, most likely on dividends and capital gains the rate on capital gains and dividends (the United Kingdom has recently increased its capital gains rate²⁴; under Wyden-Coats, those rates would be raised from 15 percent to 22.5 percent²⁵.)

No, I wasn't born yesterday. Yes, I understand these are considered non-starters in today's political environment. But if members of Congress want to talk about a revenue-neutral cut in the corporate rate to 25 percent, these are options that must be considered. To get to a 25 percent corporate tax rate Congress must begin to think outside the box.

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Thank you for this opportunity to comment on this important topic.

¹⁷ For a more recent expression of corporate dissatisfaction with revenue-neutrality, see Richard Rubin,

[&]quot;Manufacturers Resist 'False Choice' in Corporate Tax Overhaul," *Bloomberg*, November 10, 2011.

¹⁸ A "climate change levy" was introduced in the United Kingdom in 2001.

¹⁹ The Australian parliament earlier this month approved a new carbon tax. See, David D. Stewart, "Senate Approves Carbon Tax," *Tax Notes International*, November 14, 2011.

²⁰ The United Kingdom increased its rate of value-added tax from 17.5 to 20 percent on January 4, 2011.

²¹ Prime Minister Yoshihiko Noda has pledged to global leaders to gradually increase the Japan value-added tax rate from its present 5 percent to 10 percent by the mid-2010s. See, Masami Ito, "Noda Will Call Snap Poll If Diet OKs Sales Tax Hike," *Japan Times*, November 5, 2011.

²² Stuart Webber, "Thin Capitalization and Interest Deduction Rules: A Worldwide Survey," *Tax Notes International*, November 29, 2010.

²³ "The Bipartisan Tax Fairness and Simplification Act of 2011," sponsored by U.S. Senators Ron Wyden (D-Ore.) and Dan Coats (R-Ind.) would reduce interest deductions by the amount that interest is due to inflation.

²⁴ On June 23, 2010 the U.K. government raised the capital gains rate for top earners from 18 to 28 percent.

 $^{^{25}}$ Under the Weyden-Coats tax reform plan the tax rate on capital gains and dividends would increase from 15 percent to 22.75 percent.